

1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE EASTERN DISTRICT OF TEXAS
 TYLER DIVISION

3 SOVERAIN SOFTWARE)
) DOCKET NO. 6:07cv511
4 -vs-)
) Tyler, Texas
5) 1:30 p.m.
6 NEWEGG, INC.) April 19, 2010

7 TRANSCRIPT OF MOTION HEARING
8 BEFORE THE HONORABLE LEONARD DAVIS,
 UNITED STATES DISTRICT JUDGE

9 A P P E A R A N C E S

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1 P R O C E E D I N G S

2 THE COURT: Please be seated.

3 All right. We are back with the pretrial. I guess
4 Soverain's Docket No. 326, motion to exclude
5 belatedly-produced CompuServe documents and the CompuServe
6 manuals as corroborating evidence and Trevor's uncorroborated
7 testimony.

8 Who would like to be heard on that?

9 MR. GIANNETTI: Your Honor, I would like to be heard
10 on that.

11 THE COURT: All right Mr. Giannetti.

12 MR. GIANNETTI: Your Honor, may it please the Court.
13 This is the latest chapter in the Trevor controversy. Just to
14 remind the Court as to who is Mr. Trevor, Mr. Trevor is a
15 former CTO, chief technical officer, of CompuServe, one of the
16 main prior art items being relied upon in this case.

17 But he has now turned -- he is now a software
18 archeologist, which is another way of saying a professional
19 witness. Mr. Trevor has testified in a number of cases. He
20 was in the former Amazon case as an expert witness. Here he
21 is being put forth by Newegg as a fact witness.

22 We were in court on this at the pretrial conference
23 at the end of January, and the controversy, as you recall, was
24 the disclosure of Trevor and also his testimony being
25 uncorroborated. Your Honor ruled at the time in response to

1 one of our motions that Mr. Trevor could not give
2 uncorroborated testimony. That has been decided already.

3 And the other thing Your Honor did at that time was
4 to give us leave to take Mr. Trevor's deposition, even though
5 the discovery period had ended due to the fact that he was not
6 properly disclosed during the discovery period.

7 So we took his deposition. We noticed his
8 deposition, or scheduled it with the defendants, and we showed
9 up for his deposition. It was in Florida. It was scheduled
10 for February 23rd.

11 And the evening before the deposition was to
12 commence, I got a telephone call at about 8:00 or 9:00 o'clock
13 while out at dinner, saying lo and behold they had found some
14 additional documents they wanted to present to me. You
15 remember the big controversy about Mr. Trevor was that his
16 testimony was supposedly corroborated by three CompuServe user
17 manuals, and there was a dispute over whether they really
18 adequately corroborated his testimony and whether they
19 provided the appropriate element-by-element support for his
20 description of the CompuServe Mall.

21 The real prior art here is a product called -- or a
22 service called the CompuServe Mall. There are three user
23 manuals that the defendants are relying upon to corroborate
24 the expected testimony about the Mall. That was it, just
25 those three pieces of paper.

1 Now on February 22nd, the evening before Mr.
2 Trevor's deposition, I am handed a stack of documents
3 including a couple of documents with no technical content, and
4 two stacks of computer software that I am supposed to examine
5 Mr. Trevor about the next day.

6 So we took Mr. Trevor's deposition. We went forward
7 with it and asked him some questions both about the manuals
8 and about these software modules. And what came out of the
9 deposition was interesting. We established, we believe, the
10 absolute deficiency of those manuals to corroborate anything.

11 These manuals, admittedly, were not written for
12 software engineers, and they are missing pieces of important
13 items that are important to the claims of the
14 patents-in-suit. They are just not there in these manuals.
15 They are very, very superficial manuals. Mr. Trevor was
16 forced to admit that at his deposition.

17 And the other thing that came out is that we now
18 have these additional documents that we think should be
19 precluded because, first of all, they are -- they were
20 produced late. Secondly, they really don't corroborate
21 anything anyhow. The documents with no technical content are
22 no better than the manuals, and the computer software we don't
23 think it is really competent evidence of anything, much less
24 the fact that we really haven't had a chance to have a
25 thorough examination of these and weren't able to question Mr.

1 Trevor about them because we got them the night before, and
2 they weren't even written by him.

3 These documents -- he hasn't written any of these
4 documents. We haven't seen any laboratory notebooks for this
5 man, we haven't seen any of the traditional corroborative
6 materials, so we would say that the manuals -- the
7 late-produced documents should certainly be excluded. It is
8 not fair to dump documents on us the night before the guy's
9 deposition.

10 When we went through the chronology with him we
11 learned that not only had the documents been produced at the
12 last minute, but they hadn't asked him for the documents until
13 after the Pretrial Conference. Apparently they had a meeting
14 with him in early February after the January conference.
15 Perhaps recognizing the situation they were in with respect to
16 corroboration, they asked Mr. Trevor would he please look and
17 see if he had anything further.

18 And what he came up with were these non-technical
19 documents and these two pieces of software which he had not
20 himself written, which he admitted had hundreds of versions.
21 This was software that was changing all the time. He could
22 not relate the software to the extent that we could go into it
23 on such short notice. He couldn't really relate it to any of
24 the other documents we have. So this is really not fair.

25 And, furthermore, I think it is time to really look

1 at the situation and say what are they trying to do here with
2 Mr. Trevor? I think what they are trying to do is they are
3 going to have him come into court; and if Your Honor permits
4 this evidence to come in, they are going to have Mr. Trevor
5 sit there and interpret this software.

6 None of this software is covered by any of the
7 expert reports. None of it has been subject to discovery in
8 this case, and I think they are going to put him forth -- they
9 really want him to be an expert. They want him to interpret
10 this software. They want to interpret these documents he
11 hasn't written, and they want to have him try to corroborate
12 the testimony that Your Honor has already ruled has to be
13 corroborated.

14 So we say that this really stop here. It is time to
15 exclude the newly-produced documents, recognize that these
16 manuals just don't do it, and without any corroboration
17 exclude Mr. Trevor's testimony.

18 THE COURT: All right. Thank you.

19 Response?

20 MR. BALDAUF: May it please the Court. As an
21 initial matter, Your Honor, I would like to address the
22 corroboration issue.

23 With all due respect, I certainly understand that
24 Your Honor has ruled on this previously, but you did invite us
25 to go back and take a look at the case law. I would like to

1 submit that because Mr. Trevor is not a party witness, that
2 under the applicable law of the Federal Circuit, no
3 corroboration is required.

4 In the decision of Thomson SA v. Quixote Corp, 166
5 F.3d 1172 that is cited in our brief, the Federal Circuit set
6 forth that the corroboration requirement is only required by a
7 party witness, someone who actually has a dog in the fight, so
8 to speak.

9 Now, I'm sure the plaintiff is going to turn our
10 attention to the subsequent Finnigan decision where that was
11 extended to third parties; however, the earlier Thomson case
12 was never overruled, it was never reversed by an en banc
13 decision, it is the law of the Federal Circuit until we are
14 told otherwise. So it is our position that no corroboration
15 whatsoever is necessary for this testimony. That being said,
16 we still believe his testimony is fully corroborated.

17 Now, with respect to corroboration, the law is very
18 clear on this fact. In Woodland Trust v. Flowertree, 138 F.3d
19 1368, the Federal Circuit said the issue of corroboration is
20 to be decided by a rule of reason. Unlike what the plaintiff
21 is putting forth, there is absolutely no requirement that
22 there be a line-by-line correspondence between the testimony
23 that needs to be elicited and the
24 corroborating references. Indeed, there just has to be a
25 reasonable understanding that they relate to each other.

1 With respect to the corroboration issue in these
2 recently-produced documents, as they call them, these
3 documents are not new prior art references. They don't set
4 forth any new ground for invalidity, but since November we
5 have been hearing that we need more corroboration, we need
6 more corroboration.

7 Based upon that, we went back and asked Mr. Trevor
8 if he could find any additional documents that further
9 corroborate his testimony. We did so. We gave them to them
10 before his deposition. Mr. Giannetti did question him about
11 these documents at his deposition.

12 We agreed to leave the deposition open so they could
13 come back and ask him any additional questions. And,
14 specifically, when Mr. Giannetti called me to have the
15 meet-and-confer about the filing of this motion, I again
16 offered him the opportunity to take Mr. Trevor's deposition
17 one more time.

18 These documents themselves do corroborate his
19 testimony. Again, there is no requirement that there is this
20 line-by-line sort of match-up procedure, if you will, that the
21 plaintiffs are advancing.

22 Our position has never changed. All along we have
23 alleged that the CompuServe Mall invalidates the claims of
24 these patents. We have presented the manuals. The Court has
25 already ruled on the manuals and said that they could come

1 into evidence. The manuals corroborate the testimony. And
2 these additional documents further corroborate the testimony.
3 But, again, they are not new prior art references. There is
4 no obligation to supplement invalidity contentions or anything
5 like that.

6 The one final point that I would like to make on
7 this issue is that we have two points that are intertwined in
8 the plaintiffs' position. One, being the exclusion of the
9 documents themselves. We submit that there is no basis for
10 it. They have had the documents since February. They have
11 had the opportunity to take further depositions.

12 With respect to the documents themselves, mind you,
13 we are talking about the only two they have identified in
14 their motion. There is an article in the Online Today
15 magazine, which was a publication of CompuServe, that matches
16 up completely with the other references and describes the use
17 of the shopping cart.

18 Secondly, there is the computer code, which I
19 believe Mr. Giannetti himself is probably capable of
20 understanding. Certainly, Mr. Shamos -- Dr. Shamos and Dr.
21 Grimes are as well. They take this one step further, and now
22 they want to exclude again Mr. Trevor. There was a motion --
23 a Daubert motion that was filed asking to exclude Mr. Trevor.
24 That was denied, and they were given leave to take his
25 deposition.

1 There is absolutely no basis to exclude this
2 gentleman's testimony. We have alleged that the CompuServe
3 prior art invalidates the patent under both Section 102 and
4 Section 103. So there is no requirement that even if it is
5 decided that corroboration is necessary, there is absolutely
6 no requirement that this man can only testify if his testimony
7 is going to match up with every claim limitation. That simply
8 doesn't exist. So there is no basis to exclude this
9 gentleman's testimony whatsoever.

10 Thank you, Your Honor.

11 THE COURT: Response?

12 MR. GIANNETTI: Your Honor, I am so glad that
13 Counsel raised the Thomson case because I was in that case for
14 the defendant and I argued the case at the Court of Appeals.
15 I can tell you we did the job right in this case. We brought
16 in two witnesses. We had laboratory notebooks. We had pieces
17 of equipment. We did it from A to Z, and we won
18 that case. The case went up on appeal, and we won on appeal
19 also.

20 And then in the subsequent Finnigan case, Thomson
21 was explained. We know that it was the correct explanation
22 because Judge Rich, who was in -- who wrote the decision,
23 wrote the decision in the Thomson case was on the panel in
24 Finnigan. And this is what they wrote: The Thomson court did
25 not opine on the necessity of corroboration, et cetera.

1 However, Thomson did not involve uncorroborated testimony of a
2 single witness. Indeed, the district court in the case noted
3 that the evidence supporting the anticipation finding came
4 from one or more sources; the live testimony of two people who
5 had worked on the project, an expert report, portions of his
6 deposition, the experts' exhibits, and certain documents the
7 experts had reviewed. These are the laboratory notebooks and
8 other things.

9 All of this is missing. This is all missing from
10 this case. It is absolutely gone. So I am happy that he
11 cited the Thomson case because the Thomson case is a lesson in
12 how to do it correctly. And the Thomson case is explained in
13 Finnigan, and definitely Finnigan applies here. So I don't
14 see their basis for saying that Thomson hasn't been overruled.
15 Thomson has been explained in the Finnigan case, and it
16 doesn't stand for what they say. In fact, it stands for what
17 I say.

18 They should have done all of this earlier if they
19 could have. I don't know where all of the documents are that
20 you would expect someone like Mr. Trevor, the software
21 archeologist, to have, but he hasn't produced them yet.

22 As far as line-by-line corroboration, we are not
23 talking about that. All we are saying is that the elements of
24 the claims that they say are present in this CompuServe Mall,
25 hypertext statements, the messages containing product

1 identifications, they are absolutely missing from this stuff.

2 I don't know what they are going to do with this
3 software. It is not covered in their report, so the expert
4 can't testify about it. Are they planning on having Mr.
5 Trevor testify about it? Do they want to make Mr. Trevor
6 their expert witness. Maybe he is the expert they wish they
7 had hired in the first place. But whatever it is, it is not
8 permitted by the rules. They are not permitted to have lay
9 testimony about software code.

10 THE COURT: All right. Here is what the Court is
11 going to do: The new documents and computer code that were
12 produced right before the deposition are too late; they will
13 be excluded.

14 I have previously ruled that the manuals could be
15 considered.

16 I am going to withhold making a decision on -- well,
17 let me state very clearly that I do hold that Mr. Trevor's
18 testimony as a fact witness needs to be corroborated. I don't
19 know whether the manuals corroborate it or not. We will have
20 to see as it goes to trial.

21 I will allow either party that wishes to present him
22 outside the presence of the jury for me to decide whether
23 there is sufficient corroboration to put it to the jury, can
24 do so during the trial. Whoever loses on that exercise, the
25 time taken up will be charged to that side.

1 So that is my ruling as to 326. Any questions?

2 MR. GIANNETTI: Yes. I just want to reserve our
3 right -- if Mr. Trevor is going to testify about this -- well,
4 the software code is out of the case --

5 THE COURT: That's correct.

6 MR. GIANNETTI: I will withdraw that statement.

7 THE COURT: All right. Any questions?

8 MR. BALDAUF: No questions, Your Honor.

9 THE COURT: Very well. What is next?

10 MR. GIANNETTI: We have a series of motions in
11 limine, Your Honor; some of ours and one of theirs, I
12 believe. And I would be happy to address the first motion in
13 limine, if you will.

14 THE COURT: Okay.

15 MR. GIANNETTI: This is what was designated -- just
16 bear with me for a second, Your Honor.

17 THE COURT: I do want to say this about Mr. Trevor:
18 If he is going to be a fact witness, he is going to be a fact
19 witness. He will not be expressing any opinions.

20 MR. BALDAUF: That has never been our intention,
21 Your Honor.

22 THE COURT: All right. 254, patents-in-suit.

23 MR. GIANNETTI: This is Soverain's Motion in Limine
24 No. 1, which relates to the acquisition of the
25 patents-in-suit. As Your Honor may know, the patents-in-suit

1 were acquired in a bankruptcy proceeding, and we believe that
2 that information is not relevant and should not be presented
3 to the jury.

4 I believe they intend to tell the jury that the
5 patents were acquired at a bankruptcy auction. I think they
6 would probably like to tell the jury how much Soverain paid
7 for them, which was just under \$600,000; but really this was a
8 fire sale, Your Honor. It was a bankruptcy proceeding, it was
9 an auction, and it really has no bearing on what the damages
10 calculation should be in this case, any of the Georgia-Pacific
11 factors.

12 The case that we rely on principally is the Alpex
13 case out of the Southern District of New York. It is cited in
14 our papers. In which Judge Kimba Wood held that statements in
15 a bankruptcy proceeding are really not relevant to the
16 reasonable royalty issue. And so I think under Rule 403 and
17 also under the relevancy rules, we believe that this
18 information should not be placed before the jury. It is not
19 relevant evidence, it is highly -- even if it were relevant
20 evidence, it would be at most marginally relevant, highly
21 prejudicial. We believe it should not be presented to the
22 jury. We believe the cases cited in our brief support us.

23 THE COURT: Okay. Response?

24 MR. BALDAUF: Your Honor, I have heard this a number
25 of items that this was a, quote, fire sale. There has been

1 absolutely no evidence of this whatsoever. This was an arm's
2 length transaction. There were multiple bidders in this
3 process. It was fairly negotiated, and that was the price
4 that was agreed upon.

5 Under Georgia-Pacific there are a number of factors
6 that are relevant to establish profitability, commercial
7 success of the patented technology, the portion of the profit
8 that should be credited to the invention, and the amount that
9 a willing licensee would pay for use of the patented
10 technology.

11 What they paid for the technology is certainly
12 relevant to all of this. We have heard the argument about
13 Alpex. But this has absolutely nothing to do with it. In
14 that case we were dealing with statements made in the context
15 of forced liquidation where the technology was described as
16 being obsolete and having no actual market value. That is not
17 the case here.

18 There was no fire sale. There is no evidence of
19 that. There were multiple bidders. The price was fairly
20 agreed to. And it is certainly relevant under
21 Georgia-Pacific.

22 THE COURT: What about their point that the auction
23 was two years after the hypothetical negotiation?

24 MR. BALDAUF: Your Honor, the Supreme Court and
25 Federal Circuit have been very clear that, although the

1 hypothetical negotiation certainly is a relevant time point,
2 it by no way excludes the evidence to be considered. This was
3 just recently heard again in the Lucent-Gateway case going
4 back to 1933 in the Supreme Court in Sinclair. Information
5 that is relevant is not limited by the date of the
6 hypothetical negotiation by any means. We are still able to
7 consider these other relevant points.

8 MR. GIANNETTI: Your Honor, that's -- the
9 hypothetical negotiation takes place at a certain point in
10 time. In this case it was in 19 -- in 2001. And this
11 bankruptcy sale took place long before that. This was prior
12 to that time. The word fire -- so it is not relevant. It is
13 not even Book of Wisdom. I'm not quite sure why they think it
14 is relevant, but it certainly isn't relevant to the
15 hypothetical negotiation in terms of timing.

16 And the fire sale issue is -- that is not my words.
17 Those are the words of Judge Wood in her case. I think it is
18 clear that any kind of bankruptcy sale like this does not
19 really reflect --

20 THE COURT: When did you say the bankruptcy sale
21 took place in relation to the hypothetical negotiation?

22 MR. GIANNETTI: The sale took place -- when was it?
23 In 2003. It was after the hypothetical negotiation, Your
24 Honor. The hypothetical negotiation in this case took place
25 in 2001, so it did not take place at the time of the

1 hypothetical negotiation, really shouldn't be held to be
2 relevant --

3 THE COURT: I'm going to grant the motion in limine
4 as to the bankruptcy sale.

5 All right. Next? Undisclosed expert testimony.

6 MR. GIANNETTI: This is an issue involving Mr.
7 Tittel, Your Honor. You recall that Mr. Tittel is their main
8 technical expert. And Tittel's report, you will recall, had
9 some problems. When we discussed it last, we noted that when
10 he had wrote the report on infringement, he did not have in
11 mind the Court's Markman rulings.

12 He didn't really include a Section 112 analysis.
13 And he did not include an analysis of three patent claims that
14 are in suit today. That is Claim 61 of the '492 patent and
15 Claim 639 of the -- excuse me Claims 78 and 79 of the '639
16 patent.

17 So three claims that are in suit here, 3 of the 7
18 claims that are going to be tried next Monday are not really
19 analyzed in his expert reports. So our request is that those
20 analyses, any analysis of those claims at trial by Mr. Tittel
21 not be permitted.

22 Okay. Response?

23 MR. BALDAUF: Yes. Your Honor, what had happened
24 here was a little bit of a mix-up in that these claims,
25 specifically 78 and 79, were added at a later date, and they

1 did not make it into the expert's report. However, we are in
2 no way going to be prejudicing the plaintiff in this instance.

3 With respect to invalidity, Claim 78 of the '639
4 patent is virtually identical to Claim 1 of that same patent.
5 And we would only have --

6 THE COURT: Is 78 a dependent claim?

7 MR. BALDAUF: 78 is independent. Claim 1 is
8 independent. Claim 1 was addressed in the expert's report.
9 We would do nothing more than apply the same art to Claim 78
10 that was applied to Claim 71 in exactly the same way. They
11 have had our supplemental invalidity contentions where that is
12 addressed. There is no prejudice whatsoever. It is the exact
13 same argument. It is the exact same art.

14 THE COURT: What is the prejudice?

15 MR. GIANNETTI: The prejudice is that we haven't had
16 a chance to examine him on these claims. They were not in his
17 report. They were not covered in his expert deposition. We
18 don't know what he is going to say. It is not fair that an
19 expert should be permitted to testify about claims that are
20 not covered in his report.

21 THE COURT: Do you have any problem if he is limited
22 to what he said about Claim 1?

23 MR. GIANNETTI: I would have to check that, Your
24 Honor. I don't know the relationship. I am accepting
25 Counsel's representation, but I would like an opportunity to

1 read those claims against each other. I do not have them
2 committed to memory.

3 THE COURT: All right. I will take Counsel at their
4 representation that his testimony will not vary from that as
5 to Claim 1, and I will deny the motion based upon that
6 representation. But anything other than what he testifies as
7 to the Claim 1, would be excluded.

8 MR. BALDAUF: Thank you, Your Honor.

9 MR. GIANNETTI: Your Honor, the next motion in
10 limine is No. 9.

11 THE COURT: All right.

12 MR. GIANNETTI: Which Counsel advised me earlier
13 today they no longer oppose it.

14 THE COURT: No. 9 is agreed; is that correct?

15 MR. BALDAUF: That's correct, Your Honor.

16 THE COURT: All right. Agreed. Granted as agreed.
17 No. 12.

18 MR. GIANNETTI: This is a claim, damage-related
19 motion. It has to do with the idea of an acceptable
20 non-infringing alternative. It has to do with the
21 hypothetical negotiations.

22 As Your Honor may know, one of the factors in
23 Georgia-Pacific that should be considered at the hypothetical
24 negotiation in 2001 is the existence of acceptable
25 non-infringing alternatives. That has some bearing on -- on

1 the value of a license.

2 The defendant in this case points to a product, the
3 Transact product that Soverain offers, as a non-infringing
4 alternative, which would have been on the table at this
5 hypothetical negotiation. Their position is that it is an
6 acceptable non-infringing alternative that can be part of
7 their expert's damage analysis in connection with the
8 determination of reasonable royalty.

9 In fact, they go so far as to say the price of a
10 Transact license should be pointed to -- would have been
11 pointed to by the hypothetical negotiator as a cap on what
12 they would have paid for a license under the patents-in-suit.

13 Well, there are a couple of problems with that, Your
14 Honor. The first is that Transact is really not -- the
15 Transact license is not a patent license. It is a software
16 license. And that is not just a semantic difference. As I am
17 sure you appreciate, a patent license allows you to design a
18 custom product, whatever you want, that is within the scope of
19 the patent. Whereas, a software license allows you to use the
20 software. It doesn't allow you to change the software. It
21 doesn't allow you to make modifications to the software.

22 So this is an apples-to-oranges comparison. It is
23 plainly not something that is contemplated by the hypothetical
24 negotiation. They are negotiating for a patent license and
25 not for a software license, so we think it is irrelevant.

1 They shouldn't be able to point to this Transact license as
2 some sort of cap on what they would have paid as a reasonable
3 royalty.

4 The second thing is that under the Federal Circuit
5 case, the Rite-Hite case, you can't point to the patentee's
6 own product as an alternative technology. That is really not
7 what the damages analysis contemplates. So we would ask Your
8 Honor to grant our motion in limine and prevent them from
9 pointing to the Transact product as an acceptable,
10 non-infringing alternative at the hypothetical negotiation.

11 THE COURT: Now, whose product was Transact?

12 MR. GIANNETTI: It is Soverain's product, Soverain's
13 own product. Their argument is that if the price for a
14 license got too high, they would have purchased -- for a
15 patent license got too high -- they would have instead
16 purchased a software license to use Transact.

17 Of course, that is not what they were contemplating
18 at all. I think we heard this morning about James Wu having
19 this brilliant vision of making his own software. I think
20 that is the story they are going to tell to the jury.

21 But in the hypothetical negotiation they are going
22 to say, well, we would have settled for a patent license, for
23 a software license under Transact. So it is an
24 apples-and-oranges comparison, Your Honor. It really has no
25 relevance. It should be excluded.

1 THE COURT: Response?

2 MR. BALDAUF: Apples to oranges? I am having a
3 tough time with that. We heard this morning about how
4 Transact was the product that was sold by Open Market, how
5 revolutionary it was, how it is still being sold today. So
6 what we have is a hypothetical negotiation -- let me step back
7 and make one additional point.

8 Sovereign has stipulated that the accused
9 functionality is incorporated in this product. This is a
10 product that was available that they were trying to market.
11 We took the deposition of the former chief executive officer
12 of Open Market who said unequivocally that absolutely had
13 Newegg spoken to me about a potential license, we would have
14 granted it to them at our then going rates.

15 How this could be ignored and how it wouldn't be
16 relevant, is simply puzzling. This is a
17 commercially-available product that provides the same
18 functionality. Whether you call it a patent license, whether
19 you call it a software license, we are not saying they are the
20 same thing. We are saying it is certainly something that
21 would have been considered by the parties.

22 The idea that this product was available -- by their
23 own proclamations it was the best thing since sliced bread and
24 it had "X" price to it. It is absolutely something that would
25 have been considered. I don't think there is any question

1 about it.

2 Again, we look to the Georgia-Pacific factors;
3 established profitability, commercial success, portion of
4 realizable profit. This all relates to that commercial
5 product that they were selling, and it is absolutely something
6 that would have been considered by the parties. I don't see
7 how anyone could think otherwise.

8 THE COURT: Do you plan on going into actually
9 calling it a non-infringing device?

10 MR. BALDAUF: We do absolutely, Your Honor, because
11 we think that is what it was. Had we obtained a license to
12 the Transact Software, that, of course, comes with the
13 inherent license to use that software. They have set forth
14 and stipulated that it includes the functionality of the
15 patents-in-suit.

16 We wouldn't be infringing their patents if we had a
17 license to that software product. It is absolutely a
18 real-world consideration and one that would have been
19 considered by the parties.

20 MR. GIANNETTI: Your Honor, it has to be an
21 acceptable substitute. They wanted to build their own
22 software. We don't sell this product; we license it. They
23 wanted to build their own software. There is no proof
24 whatsoever that it would have been an acceptable
25 non-infringing alternative.

1 THE COURT: Okay. I think it is going to go to the
2 weight given to it. You can argue it to the jury. But that
3 one is denied.

4 THE COURT: No. 13. I guess that would be the
5 same --

6 MR. GIANNETTI: Well, this is another acceptable
7 non-infringing alternative. There were -- I think when you
8 boil it all down, it comes down to a product called the
9 Enfinity product manufactured by a company called Intershop.

10 The problem here is that the Intershop product was
11 licensed by -- this is a company that was licensed by Soverain
12 or Soverain's predecessors but not until after the
13 hypothetical negotiation. So the hypothetical negotiation was
14 in January of 2001. The license doesn't take place until 9
15 months later. So it would not have been a non-infringing
16 alternative at the time of the hypothetical negotiation. It
17 would have been an infringing alternative. So I don't see how
18 it is relevant to a hypothetical negotiation in January of
19 2001.

20 And, furthermore, there is no proof at all that this
21 would have been an acceptable non-infringing alternative.
22 There is no proof at all that they would have wanted to use
23 it. And, furthermore, as I understand it, it was a five-year
24 license. So at the hypothetical negotiation, even if it were
25 relevant, they would have only been buying a 5-year license

1 exposing them to a suit in 2006.

2 So, first of all, it was not a non-infringing
3 alternative; and, secondly, it certainly wasn't demonstrably
4 an acceptable non-infringing alternative.

5 THE COURT: Response?

6 MR. BALDAUF: I will address the last two points
7 first. With respect to the temporal scope, I disagree. I
8 don't believe it expired after the five years. But be that as
9 it may, that and whether or not it would have been acceptable
10 to Newegg, those seem like they would certainly be issues for
11 cross-examination, not any reason to bar the admissibility of
12 that evidence.

13 And I believe the Sinclair case -- again, this is
14 United States Supreme Court in 1933 holding that events
15 occurring after the date of first infringement constitute a
16 Book of Wisdom that courts may not neglect; and that no law
17 sets a clasp upon on its pages and forbids us to look within.

18 And then the Federal Circuit last year in Lucent, a
19 hypothetical negotiation analysis permits and often requires
20 the Court to look at events and facts that occurred thereafter
21 and could not have been known or predicted by the hypothesized
22 negotiators. We are talking about a matter of months here
23 where Open Market granted a full unrestricted license to one
24 of its competitors under its patents to develop and license a
25 competing product.

1 What that product was being sold for is absolutely
2 relevant by its terms by means of that license. That is a
3 non-infringing alternative. Again, I don't see any logical
4 way that could be excluded.

5 MR. GIANNETTI: Your Honor, the Book of Wisdom cases
6 are not applicable here. The non-infringing alternative has
7 to be available at the time of the hypothetical negotiation.
8 Counsel has admitted that this is one that was not available
9 until 9 months later.

10 MR. BAULDAUF: I'm aware of no statutory authority
11 or case law authority that says that it had to be available on
12 that day.

13 MR. GIANNETTI: I think it is their burden to come
14 up with a case that says it has to be. I don't think they
15 have. It has got to be available --

16 THE COURT: All right. I'm going to deny Motion in
17 Limine No. 13. But all these motions in limine are not
18 without the right to object at the time of trial; and if you
19 can come up with case law that says 8 months after the
20 hypothetical negotiation should not be considered, I will take
21 it up at that time.

22 All right. No. 14, reliance on design-arounds as
23 non-infringing alternatives.

24 MR. GIANNETTI: I believe we have reached agreement
25 on that, Your Honor. They have withdrawn --

1 THE COURT: Excuse me?

2 MR. GIANNETTI: They have withdrawn their
3 opposition.

4 THE COURT: That is agreed?

5 MR. BALDAUF: That's agreed upon, Your Honor.

6 THE COURT: All right. Reliance -- let's see. I
7 think we have already done that. Reliance on E-commerce
8 Software as data points, No. 15. That is covered by No. 12,
9 isn't it?

10 MR. GIANNETTI: Excuse me, Your Honor? Is what
11 covered?

12 THE COURT: I have down here No. 15.

13 MR. GIANNETTI: Yes.

14 THE COURT: That is the same as No. 12, isn't it?

15 MR. GIANNETTI: Not quite, no, Your Honor.

16 THE COURT: E-commerce Software.

17 MR. GIANNETTI: There are some nuances here. Let me
18 go back -- 12 -- no, 12 was the Transact issue. I think this
19 is a little bit different, Your Honor.

20 THE COURT: All right.

21 MR. GIANNETTI: Okay. Here we are -- this deals
22 with Mr. Bakewell's report. There is a footnote. I think it
23 is No. 233 in Mr. Bakewell's report in which he talks about
24 the other so-called non-infringing alternatives that were out
25 there at the time -- or relevant to the hypothetical

1 negotiation. And we challenged them on that. We said you
2 have got to show that they are non-infringing, you have to
3 show they are acceptable, and you have to show they are
4 available, all of the things that I have been talking about in
5 my arguments in the previous motions.

6 So Mr. Bakewell came back and said, well -- or I
7 should say defendants came back and said, well, they don't
8 have to do all that to prove. These are just data points, and
9 as data points we don't have to establish all of the factors
10 that you have to establish for a non-infringing alternative.

11 And so we would ask Your Honor to exclude this
12 evidence; that this data point theory is basically undermining
13 the whole concept of an acceptable non-infringing alternative.

14 THE COURT: Response?

15 MR. BALDAUF: Your Honor, we are not suggesting, by
16 any means, that these products are non-infringing
17 alternatives. That representation is incorrect. These are
18 other products that are available. They are analogous
19 products. Maybe they infringe and maybe they don't infringe.
20 We are not going to even remotely suggest they are
21 non-infringing alternatives.

22 The purpose of this is consistent with the
23 Georgia-Pacific factors to show the customary pricing for this
24 type of product, current popularity, customary selling price
25 for use of the invention or analogous inventions. These are

1 other products that are out there, and they are all offered
2 for various price points, and that is the reason for this. We
3 are by no means going to suggest that they are non-infringing
4 alternatives.

5 MR. GIANNETTI: I don't see the relevance of these
6 data points. I don't see why the jury -- these should be
7 presented to the jury. There is a risk of confusion here. I
8 believe that this should be excluded.

9 THE COURT: I'm not real sure what they are, but I'm
10 going to grant the motion in limine at this time, but that is
11 not without prejudice to approaching the Bench first when we
12 get further into the testimony and explaining it to me a
13 little bit better, and maybe I will feel otherwise at that
14 time.

15 All right. Is that all of Soverain's motions in
16 limine?

17 MR. GIANNETTI: Yes, Your Honor.

18 THE COURT: All right. Newegg's motion in limine
19 No. 306, No. 2; preclusion of evidence relating to licenses of
20 the patents-in-suit where such licenses were entered into in
21 settlement of litigation.

22 MR. BALDAUF: Yes, Your Honor. This motion deals
23 specifically with the issue of the settlement agreements with
24 Amazon and the Gap and with the other defendants in this
25 case.

1 The plaintiff has agreed that they have no intention
2 of offering the amount at which these licenses were entered
3 into, but they still want to be able to get up there and say
4 that all these people are licensees of theirs.

5 For the life of me I cannot understand nor even
6 suggest how this is relevant. It is not relevant to damages.
7 I have the recent decision by Magistrate Judge Everingham in
8 Data Treasury where he has specifically held that these types
9 of lump sum agreements are completely irrelevant when the
10 plaintiff is seeking a royalty under a running royalty theory.

11 These were all lump sum payments, have no bearing on
12 their damage case whatsoever, and they haven't been relied
13 upon by their expert.

14 Now, to the extent that the other reason they want
15 to be able to say this is that perhaps it lends some credence
16 to the validity of their patents by saying, well, Amazon is a
17 licensee, that is incredibly prejudicial. Those settlement
18 agreements were all entered into under actual litigation.

19 Now, I submit probably the likely reason that Amazon
20 settled was that the MercExchange/eBay case had not been
21 decided yet and the threat of an injunction was still out
22 there. Beyond that, their experts have not submitted any
23 opinion that they are going to be relying upon that as
24 secondary indicia of non-obviousness. There is just
25 absolutely no basis that they should be able to back-door

1 these settlement agreements in such a way that would
2 incredibly prejudice the jury.

3 Besides the fact that we have these very high
4 settlement amounts out there, specifically Amazon's, if they
5 want to get out there and wave around the fact that Amazon is
6 a licensee, it prejudices the jury because they will sit back
7 and think, well, here is a sophisticated big company we have
8 all heard of, they have taken a license, that must mean there
9 is something to these patents. While we all know that was
10 entered into to avoid litigation, there is no reasonable basis
11 for allowing that into evidence.

12 MR. GIANNETTI: Your Honor, if this is a relevancy
13 issue, I would point to the Inline case in the District of
14 Delaware where it was clearly said that evidence of agreements
15 in general or policy of making a particular type of agreement
16 may be relevant as long as it does not extend to the terms of
17 the licenses granted the settlement of litigation. This is
18 relevant to the issue of the strength of the patents and
19 commercial success, and our expert I believe did refer to this
20 in his report.

21 THE COURT: You are not going into the amount --

22 MR. GIANNETTI: No. Neither side has listed the
23 license agreements, per se. We are not going to tell the jury
24 the amounts. We are not going to tell the jury the terms,
25 simply that these licenses have been entered into. We want to

1 be able to identify the parties, and we want to be able to say
2 that the licenses have been entered into following litigation.

3 THE COURT: You want to say they have been entered
4 into following litigation?

5 MR. GIANNETTI: That would be the plan, Your Honor,
6 yes.

7 THE COURT: And they are offering a number of
8 license agreements which they are going to say these are
9 companies people you have never heard of. There are a slew of
10 licensing agreements that the prior owner of the patent
11 licensed. They are going to be offering those, and we have
12 got to be able to respond to that, so they have really opened
13 the door to that kind of testimony.

14 I think what we are asking for here, I don't think
15 it really falls under the Data Treasury rule that Counsel was
16 talking about or the ResQNet case and its progeny. That is
17 really not what we are talking about here. We just want to
18 tell the jury that these patents have been licensed, to whom
19 they have been licensed, and what the circumstances were. And
20 that's it. We are not trying to confuse the jury.

21 THE COURT: What is the relevance of that?

22 MR. GIANNETTI: Well, the relevance of the licenses
23 and the fact that there have been licenses and the
24 individuals, first of all, it is relevant because we need to
25 answer their charge that we have licensed these patents but to

1 a bunch of no-name companies.

2 Secondly, it is relevant to the issue of commercial
3 success of the patents. I mean the fact that some major
4 companies have taken licenses I think it is something that the
5 jury should hear about the strength of our patents.

6 MR. BALDAUF: Your Honor, if I may?

7 THE COURT: Yes, go ahead.

8 MR. BALDAUF: I didn't mean to interrupt. I would
9 like to address two points. First of all, this issue with the
10 Divine licenses. We went -- in our expert's deposition we had
11 listed a number of these licenses that their predecessor had
12 entered into, Divine. During the deposition they made a point
13 that some of these were entered into in settlement of
14 litigation. I personally went through all of the hundreds of
15 thousands of documents that they produced and determined which
16 ones were entered into under settlement of litigation, and we
17 took those off the list. We are not going to mention them.
18 We are not going to talk about them.

19 There is absolutely no reason these should come in.
20 I could be wrong. I've been wrong many times before. But I
21 don't believe there is any reference to any of these
22 agreements in any of their expert reports as a secondary
23 indicia of non-obviousness.

24 But beyond that, you just heard him say it, they
25 want to be able to get up here and say that Amazon took a

1 license, Amazon is a licensee of this.

2 Well, what is anybody going to think? Anyone is
3 going to think that, wow, that is an arm's length deal.
4 Amazon wanted that technology. Amazon saw something there.
5 They took a license. But that case was in this very
6 courtroom. Amazon certainly didn't do that willingly. Amazon
7 certainly didn't seek out this technology.

8 It is so incredibly prejudicial and will
9 unquestionably leave the jury with the thought in their mind
10 that there was some sort of willing component to this. It is
11 probative of nothing. Amazon tried to avoid spending money in
12 the threat of an injunction. I think we all know that.

13 MR. GIANNETTI: How am I going to answer when he
14 puts in all these Divine licenses and says, look at all these
15 licenses? These are to companies that you have never heard of
16 before. We have to be able to tell this story to the jury,
17 Your Honor. It is not fair to have him do that and not allow
18 us to put in -- we are not putting in the terms --

19 THE COURT: What is he going to be putting in?

20 MR. GIANNETTI: We are just putting in the names of
21 the licensees, the fact that they took licenses. And we also
22 would like to be able to mention that these resulted from
23 litigation, but certainly --

24 THE COURT: No. I am saying what are you seeking to
25 rebut that he is putting in?

1 MR. GIANNETTI: He is putting in all of these Divine
2 licenses. I don't know how many they are putting in --

3 THE COURT: What kind of licenses?

4 MR. GIANNETTI: Divine was a company.

5 THE COURT: Okay.

6 MR. GIANNETTI: After Open Market there was Divine,
7 and Divine licensed the patents widely, and there were a
8 number of companies that they gave licenses to. Divine is the
9 name of the company, the licensor.

10 And these licenses are going to come into evidence
11 and many of them are to small companies, very small companies
12 that probably nobody has ever heard of. They weren't for a
13 lot of money. These licenses were for -- you know, the
14 company was in dire straits. So they put out these licenses.
15 That is all going to come in. But we think we should be able
16 to tell the other side of the story, which is that there were
17 some substantial companies that took in licenses. We are not
18 going to put in the amounts, we are not going to put in the
19 terms of the license, but we need to tell that to the jury.

20 THE COURT: I'm going to deny the motion in limine.

21 All right. What else? Is there anything further
22 from Newegg?

23 MR. BALDAUF: That's it, Your Honor -- excuse me,
24 I'm sorry. There is one other issue that Ms. Frost would like
25 to --

1 MR. SAYLES: First of all, may I address something
2 else?

3 THE COURT: Yes.

4 MR. SAYLES: In the event that they offer these
5 settlement licenses and we object and it is overruled,
6 consistent with your denial of the motion in limine, would we
7 then have the ability, if we want to, to put in the fact that
8 these are lump sum agreements because we have the competition
9 in this case of them seeking a running royalty and us putting
10 forth a lump sum?

11 It seems to me that they shouldn't have the cake and
12 eat it too to put in settlement licenses and say they are not
13 going into amounts but leave us with the inability to point
14 out that these were lump sum settlements? So I inquire
15 because I want to --

16 THE COURT: If you put in they were lump sum
17 settlements, would you let them put in the amounts that were
18 paid? Would you object to that?

19 MR. SAYLES: Well, we don't think the amounts should
20 come in. If that was the option we were faced with, we would
21 have to decide whether it was worth it or not. But the Amazon
22 settlement was \$40 million, and that sounds like a lot of
23 money over there in the jury box. So my inclination is, right
24 now, that we wouldn't want that amount in but these settlement
25 licenses were indeed lump sums.

1 MR. GIANNETTI: We are not putting the amounts in,
2 Your Honor. I don't think there is any need to tell them what
3 the terms were.

4 THE COURT: What is your response to his request to
5 put in that they were lump sum settlements instead of running
6 royalties?

7 MR. GIANNETTI: Well, not if we are not going to
8 tell them what the amounts are. If the terms aren't coming
9 in, they shouldn't come in for either party. We are not going
10 to tell the jury that Amazon paid \$40 million.

11 THE COURT: I think that they are entitled to put in
12 the fact that this technology was licensed to Amazon and
13 others, to rebut what you are putting in regarding the Divine
14 licenses. But how much further you go -- this becomes a very
15 slippery slope -- if you then want to put in that they were
16 lump sum instead of paid-up royalty, then I'm going to let
17 them put in the amounts of the settlement.

18 You know, y'all need to think that through, and I
19 wish y'all could discuss it and decide before we get in the
20 middle of trial to do that --

21 MR. GIANNETTI: I can say that we don't intend to
22 put in the amounts right now, Your Honor.

23 THE COURT: I know you don't, but if they want to
24 put in that they were lump sum, then I would allow you to put
25 in the amounts is what I am saying.

1 MR. GIANNETTI: In other words, if they want to put
2 in the lump sum, then we get to put in the amounts?

3 THE COURT: That's right.

4 MR. GIANNETTI: We would prefer no terms at all.

5 THE COURT: I think that would be simpler because
6 you get on this slippery slope of retrying -- it just starts
7 going into a whole other case, so I am inclined at this time
8 with stopping it, with letting them just put in it was
9 licensed. You think about it, if you want to really urge, I
10 will consider that later -- I'm not going to rule on it right
11 now, but I will look at it. But I will give you a heads-up
12 that if you pursue that course and I did go that far, then I
13 would let them put the amounts in.

14 MR. SAYLES: I understand.

15 MR. GIANNETTI: Thank you, Your Honor.

16 MR. SAYLES: Can I mention something to Mr. Baldauf
17 that I want him clarify?

18 THE COURT: Okay.

19 (Pause in proceedings.)

20 MR. BALDAUF: Your Honor --

21 THE COURT: Let me say this further about that last
22 issue we were talking about: I think really what is at issue
23 or what has been put in issue is the fact of licensing. Once
24 we get beyond that and start getting into the terms of the
25 license, neither one of you have relied upon those for your

1 damage experts, so I would really rather probably not get into
2 all that area. Okay.

3 MR. SAYLES: I think I would probably not, but if I
4 can take the Court up on thinking about it.

5 THE COURT: Think about it. But -- how long do you
6 need to think about it?

7 MR. SAYLES: Well, I can let you know before we
8 start on Monday morning.

9 THE COURT: Why don't you let Mr. Giannetti know of
10 your position by, say, Thursday at noon.

11 MR. SAYLES: I can do that.

12 MR. GIANNETTI: It is a problem, Your Honor, because
13 this was not something factored into the expert reports.

14 THE COURT: I think it would be a problem for both
15 sides the further we go down that road. So I would rather
16 just stay in the shallow water.

17 Go ahead.

18 MR. BALDAUF: Mr. Sayles reminded me of two other
19 things. When we were discussing the issue of the expert
20 report, we spoke just about the '639 patent, and you had also
21 mentioned Claim 61 of the '492 patent, which is a dependent
22 claim. We have no intention of having our expert address that
23 claim in the context of infringement. We will just focus upon
24 the underlying independent claim that was addressed.

25 With respect to invalidity, this claim offers

1 some -- in our view, some fairly frivolous, additional
2 limitations which we will not be offering any additional prior
3 art references to. We would intend to have our expert just
4 comment they would be matters of common sense.

5 And then the second issue that I would like to bring
6 up -- we have a fairly unusual situation here where the
7 plaintiffs' expert on validity is a former law partner of mine
8 in our law firm, so we would ask that you would agree not to
9 bring that fact up.

10 MR. GIANNETTI: Can I consult with Mr. Adamo about
11 that? I think we will probably not raise that. I think that
12 is fair.

13 THE COURT: Don't raise that without approaching the
14 Bench first.

15 MR. GIANNETTI: Yeah, I will do that.

16 On 61, Your Honor -- I just want to make sure I
17 understand. I thought we had a ruling on agreement on 78 and
18 79.

19 MR. BALDAUF: Right.

20 MR. GIANNETTI: 61 is a different claim in a
21 different patent. It wasn't addressed at all, so I don't see
22 how they can now turn and have their expert address 61 even in
23 the context of it being similar to another claim, so I think
24 61 is gone from their expert report and their expert
25 testimony.

1 MR. BALDAUF: If I may, Your Honor, this is a
2 dependent claim dealing with a hypertext statement. And what
3 it does, it adds the limitation that the statement includes
4 information such as the buyer's name, purchase price. It is
5 that simple. So we would just simply want to have our expert
6 comment that would be a matter of common sense. We have no
7 expectation or intention --

8 THE COURT: Did he refer to that in his expert
9 report?

10 MR. BALDAUF: He did not, Your Honor.

11 THE COURT: No. If it is not in the report, then it
12 is not coming in.

13 MR. BALDAUF: Thank you.

14 THE COURT: What else?

15 MR. BALDAUF: Ms. Frost has a point to make.

16 THE COURT: All right.

17 MS. FROST: Good afternoon, Your Honor.

18 THE COURT: Good afternoon.

19 MS. FROST: Thank you. I would like to make a point
20 briefly for the appellate record --

21 THE COURT: I'm sorry?

22 MS. FROST: I would like to make a point briefly
23 just before the case gets underway.

24 THE COURT: What appellate record? You are not
25 expecting to have to appeal, are you?

1 MS. FROST: You never know.

2 THE COURT: You are wanting to do this for
3 Soverain's behalf, right?

4 MS. FROST: Absolutely.

5 I would like to specifically state, Your Honor,
6 Newegg's continuing objection to the representation of
7 Soverain by Jones Day.

8 Your Honor has ruled on this, and we are certainly
9 not trying to ask the Court to revisit this issue at all, but
10 we just want to make clear our position that Jones Day's
11 representation of Soverain, in our opinion, violates the
12 ethical rules of this Court, this Circuit, this state, and
13 will prejudice Newegg's right to a fair trial under the
14 federal due process cause.

15 MR. GIANNETTI: I hope we are not going to have this
16 for every hearing we have --

17 THE COURT: I don't think it would be necessary for
18 every hearing.

19 MR. GIANNETTI: I hope this issue is dead for a
20 while.

21 THE COURT: Did you decide not to seek mandamus?

22 MS. FROST: Yes, we did and pursue our appellate
23 remedies as we have them.

24 THE COURT: Very well.

25 All right. Let's see, start on Monday. So y'all

1 have 12 hours per side?

2 MR. GIANNETTI: Yes, Your Honor.

3 THE COURT: If we can get in about 6 hours a day, so
4 we should finish the evidence on Thursday. That will be my
5 goal. So we will work pretty much 9:00 to 5:00.

6 I have never done this before -- I don't know if
7 y'all have -- but would each side be interested in providing
8 refreshments for the jury?

9 MR. SAYLES: We will do that.

10 MR. GIANNETTI: We agree to that.

11 MR. SMITH: We were already planning on bringing
12 water. I heard mention of doughnuts this morning, so do we
13 need to pick up some Southern Maid on the way in, too.

14 THE COURT: I think that would be good. Why don't
15 you visit with Ms. Ferguson and y'all split up, plaintiff do
16 it one day and defendant do it the next, refreshments for
17 their morning and afternoon break. If we get into taking
18 short lunch hours, if it happens to fall on your day, then you
19 can provide lunch as well.

20 MR. SAYLES: Very well.

21 THE COURT: Is that agreeable?

22 MR. GIANNETTI: That's fine, Your Honor.

23 THE COURT: I'm not trying to force anyone, but I
24 know the amount of money that is being spent in prosecuting
25 this case, and I think as hard as these jurors are going to be

1 working next week, a little creature comfort for them would be
2 good.

3 MR. GIANNETTI: That will be fine.

4 MR. BALDAUF: We will give them flowers too if they
5 request that.

6 THE COURT: Yeah. I guess -- do y'all know about
7 that case we were trying?

8 MR. GIANNETTI: No.

9 THE COURT: It was VirnetX v. Microsoft. Mr. Sayles
10 was in it. And we had an all-female jury. And I guess it was
11 the next to the last day that they sent out a note that if it
12 would be possible for them to have an arrangement of flowers
13 for the jury room on the last day, they would like to have it.

14 So I asked if either side would be interested in
15 doing that. Of course, all of the hands go up. I said, all
16 right, just don't get too over the top. I could just see both
17 sides having a funeral arrangement there covered up with
18 flowers.

19 So I don't think this one will be asking for
20 flowers, hopefully, Mr. Sayles.

21 All right. Have y'all exhausted all your settlement
22 talks? Are you still talking through a mediator or anything?

23 MR. GIANNETTI: I think Ms. Wolanyk has a report.

24 MS. WOLANYK: Your Honor, we have had another few
25 rounds of discussions since we were last here in January. At

1 this point Soverain has offered terms that are comparable to
2 those that we offered Amazon, our broadest terms ever. And
3 Newegg is seeking further terms and so we have yet to have an
4 offer from them. We are in an impasse.

5 THE COURT: Okay.

6 MR. SAYLES: Mr. Cheng on our behalf.

7 MR. CHENG: Your Honor, we have made it very, very
8 clear --

9 THE COURT: I'm sorry, you have made it very clear
10 what?

11 MR. CHENG: We have made it very clear consistently
12 in our talks, settlement talks with Soverain that we seek,
13 primarily, freedom from future litigation; that being the
14 point and purpose of settlement. Irrespective of what terms
15 Amazon accepted with Soverain, we have not yet been able to
16 see terms from Soverain that we believe will free us from
17 future litigation, so we have not --

18 THE COURT: Future litigation from Soverain?

19 MR. CHENG: Yes, from Soverain.

20 THE COURT: With regard to these patents?

21 MR. CHENG: That's right. Or with respect to the
22 settlement agreement. The last thing we would want is to sign
23 a settlement agreement that gives them one additional way to
24 litigate -- to sue Newegg.

25 So as a result we have made it clear that if they

1 agree to a settlement agreement term that will give us that
2 comfort, we would very gladly continue our settlement
3 discussions.

4 THE COURT: Okay.

5 MS. WOLANYK: And, Your Honor, we feel at this point
6 in time we have offered terms consistent with the agreement
7 that Amazon essentially wrote, and we believe do offer the
8 patent case that Newegg is seeking. We are also two years
9 into this, and we have yet to know what settlement range
10 Newegg is even offering.

11 THE COURT: Okay. Are you -- the term that they --
12 seem to be a sticking point for them, is they want protection
13 as to any future suits by Soverain involving, I guess, other
14 intellectual property. Is that a sticking point for Soverain?

15 MS. WOLANYK: No. We have offered coverage as to
16 our entire portfolio and future patents as well.

17 MR. CHENG: Your Honor, just to clarify. We are not
18 talking about future suits involving other Soverain
19 intellectual property. We are talking about the ability of
20 Soverain to potentially, for example, sue Newegg or a spin-off
21 entity, a subsidiary of Newegg that is about to be acquired,
22 or come after Newegg or would be acquired for additional
23 payments based upon the terms of the settlement agreement.

24 Just to give one example, there are other provisions
25 in the agreement that continue to give us pause as to whether

1 or not patent peace is generally provided for under the terms
2 of that settlement --

3 THE COURT: If you could go to the podium. I am
4 having a little trouble hearing you.

5 MR. CHENG: I'm sorry. Your Honor, just to clarify,
6 we are not necessarily concerned with respect to other patents
7 in the Soverain intellectual property portfolio. We are
8 actually concerned about the current terms that Soverain has
9 proposed that we have tried very, very hard to accommodate, do
10 not provide Newegg with protection from Soverain in terms of,
11 for example, events like Newegg potentially being sold to a
12 third party or Newegg selling divisions to a third party. We
13 are concerned that at the point of an acquisition, Soverain
14 could come and seek additional amounts from Newegg under the
15 very patents --

16 THE COURT: From Newegg or from Newegg's
17 predecessor?

18 MR. CHENG: From Newegg.

19 THE COURT: From Newegg or from its predecessor?

20 MR. CHENG: No, no, from Newegg, from Newegg
21 indicating essentially -- what would happen is if we don't get
22 coverage after an acquisition, right, an acquirer could force
23 us to accept a lower acquisition price, for instance. It is
24 very, very critical for us to ensure that there is --

25 THE COURT: So you are concerned about someone who

1 might acquire Newegg as to whether they would be covered by
2 the license that you have taken?

3 MR. CHENG: That's correct, that's correct.

4 THE COURT: Wouldn't they be covered by a license?

5 MS. WOLANYK: Your Honor, we have provided that
6 coverage. What Newegg is seeking is an unlimited ability to
7 spin out pieces of licenses to an unlimited number of
8 potential spin-outs. We are not sure -- this is the challenge
9 on a lump sum type of arrangement as we have, we are saying to
10 them, yes, you can cover your business; yes, you can sell that
11 business and take the license with -- but they want the
12 ability to expand it in an unlimited way --

13 THE COURT: Sort of divide the license out?

14 MS. WOLANYK: Yes.

15 THE COURT: Are you seeking to divide --

16 MR. CHENG: That is not what we are seeking --

17 THE COURT: -- the license?

18 MR. CHENG: -- at all, Your Honor. That is
19 absolutely not what we are seeking.

20 I think just to sum it up, we have worked very, very
21 hard and we have spent many long hours trying to work with
22 Soverain to come to terms that we believe would give us
23 genuine patent peace. With due respect to the fact that they
24 believe that they have given us the best possible license
25 terms they can offer, we cannot see patent peace in the

1 agreement they provided to us.

2 THE COURT: Cannot see what?

3 MR. CHENG: We don't see patent peace and definitive
4 freedom from litigation with Soverain in the terms they have
5 offered to us, so at this point in time we have not been able
6 to, you know, come to agreement, definitive agreement with
7 Soverain.

8 THE COURT: I'm a little perplexed because it sounds
9 like y'all are seeing two different worlds totally as far
10 as -- before you even get to talking money as to what the
11 effect if you would come to an agreement on money whether it
12 would buy you the peace you seek or whatever --

13 MR. CHENG: I'm sure -- I'm sorry, Your Honor.

14 THE COURT: What were you going to say?

15 MR. CHENG: I'm sure if we offered enough money,
16 Soverain would give us the terms we want.

17 THE COURT: What term are you asking for
18 specifically that they are not willing to give?

19 MR. CHENG: Off the top of my head there are a
20 couple of terms that we have not been able to come to
21 agreement on. One involves whether or not the benefit of the
22 agreement that we seek -- the patent peace that we seek would
23 extend to acquirers of Newegg's business or parts of Newegg's
24 business that eventually gets sold.

25 It is not our intention at all to try to set up any

1 sort of competitor to Soverain. It is not our business. We
2 have no desire to do that. But they seem to be very fixated
3 on the concept that is what indeed we will do, we will end up
4 spinning off licenses to all sorts of third parties. That is
5 not our intention at all, but --

6 THE COURT: What assurance could you give them that
7 that is not your intention? In other words, would you agree
8 that you would not spin-off more than one time or more than
9 two times or something of that nature?

10 MR. CHENG: I can't predict the future, Your Honor.
11 The owner of my company is a very ambitious person. He is a
12 serial entrepreneur, and he has ideas all the time and
13 constantly. I guess the only assurance I can provide at this
14 point is that we haven't officially spun a company off, we
15 haven't sold a division off yet. But I don't think I can
16 responsibly advise my board, especially since we have filed an
17 S1 to go public, that we can limit our options in that
18 respect. I can't really say we will limit it to one spin-off
19 or two spin-offs or three spin-offs.

20 THE COURT: Well, who is y'all's mediator?

21 MR. CHENG: I'm sorry?

22 THE COURT: Who is the mediator?

23 MS. WOLANYK: Mike Patterson.

24 MR. CHENG: Mr. Patterson.

25 MS. WOLANYK: And Judge Faulkner has also mediated a

1 few times for us in the case.

2 THE COURT: Are y'all in communication with either
3 one of them?

4 MR. CHENG: We are. Mr. Patterson has been very
5 helpful.

6 THE COURT: Okay. Well, I would just encourage you
7 to -- do y'all think money is going to -- usually these
8 things -- this is kind of like a divorce. You know, if you
9 are just talking about money, it is not a problem. But if you
10 are talking about kids, it can be a real problem. Are
11 y'all -- have y'all discussed money at all?

12 MR. CHENG: Not for many months, Your Honor.
13 Candidly the last offer that we received financially from
14 Soverain is not something we could contemplate accepting.

15 MS. WOLANYK: Your Honor, Newegg never made an offer
16 to Soverain on its own. At one point in time like two years
17 ago when it was still jointly defending, there was a group
18 offer. They never made us an offer, so we are not really
19 sure.

20 MR. CHENG: It was very easy, Your Honor, to back
21 out the amount that Newegg offered at the time --

22 THE COURT: I'm sorry, what?

23 MR. CHENG: It was very easy -- it would have been
24 very, very simple to do simple math. It was a group offer
25 involving two of the other defendants that subsequently

1 settled, and it would have been very, very simple to have
2 backed out the amount that would have represented Newegg's
3 portion of that settlement. So we have indeed made a
4 financial offer in the past.

5 THE COURT: Okay. Well, is there anything the Court
6 can do to help y'all try to find some common ground? I'm
7 really perplexed by this business component. To me it sounds
8 like, perhaps that is the biggest hang-up than perhaps the
9 money. I don't know what the dollars are. But unless you can
10 resolve what is going to be granted and what is going to be
11 released, you know, I'm just -- I haven't run into that very
12 often where that is really the big hang-up.

13 MR. CHENG: Your Honor, if I may, one of our biggest
14 concerns is to make a financial offer and subsequently realize
15 that we are not seeing eye to eye on the other license terms
16 and have additional amounts extracted from us after we make
17 the financial offer. Our recognition and our experience in
18 negotiating various contracts suggests that it is more
19 efficient to make sure that the license agreement is very
20 completely agreeable, you know, especially the essential terms
21 like freedom -- for us, freedom from future litigation -- are
22 completely agreed upon before we make financial offers because
23 of that concern.

24 MS. WOLANYK: With all due respect, Your Honor, we
25 have negotiated licenses with 7 sophisticated companies now,

1 all of whom have signed the very license terms that Newegg
2 doesn't find acceptable; and we are finding it hard for us --
3 we have been negotiating terms of various variety for two
4 years now, and we are finding it hard to get to a point to
5 know what we are negotiating over. And, again, we have urged
6 Newegg to make an offer so we know we are in the ballpark here
7 or ballpark here. We don't know where we are at. And they
8 just keep saying we need more -- we could be in this business
9 in the future, we might need to have that business in the
10 future.

11 THE COURT: Do you think that if the money was
12 right, that you could meet their licensing requirements?

13 MS. WOLANYK: Possibly.

14 MR. CHENG: If it was high enough, I would assume
15 they would accept almost any terms. What we can afford is
16 another issue, Your Honor.

17 THE COURT: You can what?

18 MR. CHENG: What our company can afford to pay them
19 is a whole other issue. We have made it very, very clear that
20 there are just amounts that we can't afford to pay just
21 because our business is such a low margin business.

22 THE COURT: I was just wondering if it might be
23 worth your while, though, to make them an offer contingent
24 upon the license being satisfactory to you, you know, to see
25 if you are in their ballpark or not. Because she just made a

1 representation that if she felt like your offer was in the
2 ballpark, that they would try very hard to meet your license
3 requirements.

4 MR. CHENG: Your Honor, my concern is -- and I am
5 sure you are well-aware, I mean standard negotiations, theory
6 suggests that basically puts a floor, and the way that our
7 experience has been negotiating arrangements like this with
8 parties similar to Soverain -- it is not like we haven't come
9 to settlement agreement -- in agreement with parties similar
10 to Soverain, is that it doesn't work out very well for us when
11 we basically create some sort of floor for ourselves to start
12 negotiating up from.

13 THE COURT: Let me say this: I think whatever offer
14 you make at this stage could just be a one-time deal because
15 we are going to be by -- in about another 10, 12, days the
16 jury is going to decide what that number is and what the terms
17 of the license agreement are, so you have got an opportunity
18 to make a shot at it and it may not be successful. You can
19 have it all kept confidential and you don't ever have to make
20 another offer, but I would just really encourage you to at
21 least take a look at seeing whether you can give them
22 something to worry about and maybe you can get something
23 worked out, maybe you can't.

24 MR. CHENG: Thank you, Your Honor, that is an
25 excellent suggestion, Your Honor. I would also suggest that

1 they could give us something to worry about as well by making
2 us an offer we could consider as well -- a financial offer we
3 could consider as well.

4 THE COURT: Well, I would encourage both of you to
5 try to continue to talk, work through your mediator. I will
6 just say the clock is ticking down. And both of you are
7 business people. You can still work out a business solution
8 to this dispute where you have some control over your future
9 and the future of your company and the future of this
10 litigation and the future of this license.

11 But starting very quickly on next Monday morning,
12 you are going to lose total control of the outcome of this.
13 You have got excellent lawyers on both sides. They can try to
14 minimize your risk, maximize your potential. But you have got
15 a lot of variables at play.

16 You have got a jury of 8 people. You have seen them
17 now. You know what they look like, but you don't know what
18 they are going to decide. And you won't know until a week
19 from Friday. Once they have decided, you are pretty well
20 stuck with that. You have got a Judge that you don't know how
21 he is going to rule. He is not perfect. He does make
22 mistakes.

23 So, you know, you can't totally predict what I am
24 going to do in a case. But between now and next Monday both
25 of you have an opportunity to have some control over the

1 destiny of this litigation, so I am going to ask both of you
2 to -- I want both of y'all to sit down at the back of the
3 courtroom when we are through, the two of you, and discuss
4 which mediator you would both prefer to use, and see if you
5 can't come to agreement on that, number one.

6 And then get in contact with that mediator, let him
7 know where you are, and let him know you are available to and
8 want to at least try to work with him over the next week to
9 see if you can make any progress towards settlement. Okay?
10 Because these cases, they are long, they are hard, they are
11 difficult. The results are unpredictable. And it will go on
12 and on and on.

13 How much have y'all spent defending this case so
14 far?

15 MR. CHENG: It's a lot of computers.

16 THE COURT: Excuse me?

17 MR. CHENG: We have had to sell a lot of computers.

18 THE COURT: And a lot of cameras.

19 MR. CHENG: And a lot of the cameras.

20 THE COURT: I still like the camera I bought from
21 y'all. It is working well. I know it takes a lot of cameras.

22 How much have you spent prosecuting it?

23 MS. WOLANYK: A large amount.

24 THE COURT: All right. You both know what those
25 numbers are, and they are going to do nothing but get bigger.

1 I know your lawyers will do you a great job, and they don't
2 mind litigating this case, they don't mind taking it to a
3 jury; but they are not the ones that have to live with the
4 results. The two of y'all are and your companies are.

5 So I hope you will try to get together and visit
6 this afternoon and see if you can't get past the posturing and
7 get down to getting this deal closed if you can and find some
8 common ground.

9 All right. See you on Monday.

10 MR. CHENG: Thank you.

11 (Hearing concluded.)

12

13

14 C E R T I F I C A T I O N

15

16 I certify that the foregoing is a correct transcript from the
17 record of proceedings in the above-entitled matter.

18

19

/s/ Shea Sloan

20

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